

# What Kind of Alaska do we want?

A packed crowd gathered at the 49th State Brewing Company on December 10, 2019 for Alaska Common Ground's fiscal forum entitled **What kind of Alaska do we want? How do we get there?** The discussion featured Senator Natasha von Imhof, Co-chair of the Senate Finance Committee; Anchorage Mayor Ethan Berkowitz; CIRI Government Relations Vice President, Greg Razo; Institute of Social and Economic Research economist, Mouhcine Guettabi; and Atwood Chair at the UAA Department of Journalism, Larry Persily. Thea Agnew Bemben of Agnew::Beck moderated. The goal of the event was to increase public knowledge and understanding of the realities of Alaska's financial situation, and of potential measures to achieve a positive fiscal future.

Senator von Imhof launched the forum with a well-illustrated dose of reality ([see her presentation slides here](#)). "We are at a crossroads!" she said. Alaska cannot stay solvent if the state continues to pay dividends at, or even close to, the current statutory amount. She wants the legislature to find middle ground for all spending and establish a spending cap. Though she believes there are still government inefficiencies to be corrected, she noted that "It takes time and focus and energy to find more

efficiencies...large cuts have to be walked back.”

She and other panelists highlighted the fact that Alaska’s primary source of revenue for government spending is now through management of the Permanent Fund as an endowment under Senate Bill 26. State revenue from this source now exceeds revenue from petroleum production, and, based on current projections, will continue to do so. The statute established 5.5% as the percentage of the market value available from the Permanent Fund this year. Next year it will be 5%. Other endowment systems were studied, and percentages were carefully gaged and set to protect the principle of the fund.

Greg Razo noted that Alaska’s public spending must recognize the food insecurity in villages where part of the economy is subsistence hunting, fishing, and gathering. Climate change is threatening this ancient and traditional part of Alaska’s economy.

Mayor Berkowitz described how once generous state assistance to Anchorage has been reduced over the years to a pittance. Now the state does not even clear sidewalks on state roads within the municipality. He sees great potential to build the earnings of the Permanent Fund by investing more money in it. The Mayor advocated dividing the growing

“percent of market value” earnings three ways to establish an ongoing percent for municipalities, for state services, and for dividends.

Mouhcine Guettabi and Larry Persily took the lead in emphasizing the economic value of quality of life and the fact that attracting people and economic development to Alaska depends greatly on having good state educational systems, transportation, and other public services. Persily concluded by telling people to look at the math, face reality, and find the revenues to build the secure and prosperous state that we want. All speakers noted that establishing ongoing fiscal predictability and stability would be an economic stimulant. The need for new revenue sources, such as taxes, was mentioned frequently in describing a positive fiscal future for our state.

The event was audio recorded by Alaska Public Media, livestreamed on Facebook, and video recorded by Jenson Hall Creative. [You can watch the video here](#). Co-chairs of the planning committee for this forum were Janet McCabe and Cliff Groh. Cliff Groh has written a series of articles for the Anchorage Press on Alaska’s fiscal issues. You can [read one here](#). If you want to read them all, search for Cliff Groh at [anchoragepress.com](http://anchoragepress.com).

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# It's Probably Worse than you Think

By Cliff Groh, Nov 4, 2019, [Anchorage Press](#)

Alaska's fiscal outlook is bad due to factors such as drooping oil prices, long-falling Alaska oil production, and an absence of broad-based taxes. The non-partisan Alaska Legislative Finance Division projects that starting next year, the State faces annual deficits exceeding \$1 billion under current law and the most likely assumptions.

But that gloomy scenario probably understates our fiscal squeeze. Numerous other factors either threaten future revenues or create pressures for spending to increase.

Let's start by looking at some of those upward pressures on the budget: the unfunded liabilities of the state government's pension systems; the capital budget; and refundable oil tax credits.

The State of Alaska is paying off the unfunded liabilities previously built up in the Public

Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) under an officially adopted payoff plan that runs at least until Fiscal 2039. Actuaries project that the annual installments under that plan will increase every year but one, and also project that those installments will total more than \$8 billion over the decades. Changing demographics and shifts in financial markets, however, could increase that total price tag over the next two decades.

The capital budget was probably too large in some years of high oil revenues. That spending for buildings and other infrastructure has fallen substantially in the last half-dozen years, however, and this year it is less than \$150 million in General Fund spending. Experts see that number as too low. The Office of Management and Budget estimated in 2018 that the State of Alaska has needs for deferred maintenance totaling \$1.87 billion. One observer's calculation is that the annual capital budget should be at a minimum tripled to start catching up on that backlog.

Then there's refundable oil tax credits, an obligation which the Alaska Department of Revenue estimated at \$700 million in June of 2019. The State

has proposed to pay off the credits through a bond program now in litigation while paying zero for the credits in the current year's budget. The obligation to pay the oil tax credits is much weaker legally than the obligation to pay in full the pension system benefits, which are explicitly protected in the Alaska Constitution.

Now let's turn to the revenue side of the equation. Climate change poses a systemic fiscal danger to our state.

The evidence of this global phenomenon is all around us. Humans are changing their behavior in reaction to the changing physical world. The use of electric cars may blow past gasoline-powered vehicles by 2040. Oil companies are changing their names to shed their oil-only images and are focusing increasingly on wind, solar, and other renewable sources. Carbon taxes are likely to further reduce the demand for oil worldwide. At least one major energy producer—Norway-based Elsinor (formerly Statoil)—has projected that oil demand could start to decline by 2030, as Alaska Public Media's Elizabeth Harball noted in 2018.

Climate change

already appears to be reducing oil production from Alaska's North Slope, as long-time oil industry observer Tim Bradner has pointed out. The Arctic is warming at rates twice as fast as regions further south, and those higher temperatures thaw permafrost and reduce the efficiency of oil-producing facilities.

The climate change news will probably get substantially worse for Alaska. Energy companies recognize that there is a growing possibility that the warming planet will lead to significant amounts of oil now ticketed to be produced to end up in the ground unburned. Some of that oil stranded by climate change is likely to be on the North Slope, in part because that region is expensive to work in and high-cost provinces are most likely to be the home of stranded oil.

Over the next year—and over the next 10 years or so—the downside risks for Alaska on the fiscal front appear to exceed the upside potential. Alaskans should prepare accordingly.

*Cliff Groh is an Anchorage lawyer and writer as well as the legislative assistant who worked the*

most on the bill in 1982 that created the Permanent Fund Dividend we have today. He also designed a course he taught at the University of Alaska called "Navigating Alaska's Fiscal and Economic Challenges." This is the ninth installment of a continuing series on the Permanent Fund Dividend and Alaska's fiscal system.